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## Russian Federation

### Agricultural Situation

### Government Program for Agriculture and for Market Regulation 2008-2012

### 2007

**Approved by:**

Allan Mustard  
American Embassy

**Prepared by:**

Allan Mustard

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**Report Highlights:**

The Russian Government approved a program for development of agriculture, regulation of agricultural commodity markets, and rural development for the period 2008-2012 that involves expenditure of 1.1 trillion rubles (\$41 billion) over five years, split between federal and provincial budgets. The program's goals are sustainable rural development, increased rural employment and improved rural living standards; improving competitiveness of Russian production agriculture; and natural resource conservation. Agricultural production is officially forecast to rise by 21.7% between 2007 and 2012 as a result of the program, with specific emphasis on boosting output of meat. The program specifies extension of the tariff-rate quota regime on imported meat after 2009, and abolition of the country allocations within the TRQ regime, as well as raising out-of-quota tariff rates.

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<b>Summary</b> .....	<b>4</b>
<b>Overview of the Program</b> .....	<b>4</b>
Table 1. Russia: Government Program Resources for Development of Agriculture .....	5
<b>Sustainable Rural Development</b> .....	<b>6</b>
Table 2. Russia: Financial Support for Development of Rural Infrastructure .....	6
Table 3. Russia: Financing for Rural Housing Development Improvement .....	7
<b>Creation of General Conditions for Functioning of Agriculture</b> .....	<b>7</b>
Soil Fertility.....	7
Table 4. Russia: Financing of Soil Fertility Measures.....	8
Provision of Information to the Agriculture Sector.....	8
Table 5. Russia: Financing of the System of State Agricultural Information Delivery .....	9
Development of Land Mortgaging .....	9
Table 6. Russia: Target Indicators for Adoption of Agricultural Land Mortgages .....	10
Personnel Retraining and Extension Service.....	10
Table 7. Russia: Financing of Personnel Retraining and Extension System.....	11
Participation of Producer Associations in Formulation of Agricultural Policy.....	11
Table 8. Russia: Financing of Activities of Agricultural Producer Associations .....	11
<b>Priority Agricultural Subsector Development</b> .....	<b>11</b>
Support of Brood Livestock.....	12
Table 9. Russia: Financing of Brood Livestock Improvement .....	13
Beef Cattle.....	13
Table 10. Russia: Targets for Beef Sector Improvement.....	13
Table 11. Russia: Financing of Brood Beef Cattle Maintenance.....	13
Reindeer and Free-Range Horse Herds.....	13
Table 12. Russia: Financing of Reindeer and Free-Range Horse Maintenance.....	14
Sheep and Goats.....	14
Table 13. Russia: Financing of Brood Ewe and Nanny Maintenance.....	14
Epizootic Measures .....	14
Table 14. Russia: Financing of Epizootic Measures.....	14
Subcutaneous Botfly and Hypodermatosis .....	14
Table 15. Russia: Financing of Eradication of Hypodermatosis.....	15
Elite Seed Production .....	15
Table 16. Russia: Financing of Elite Seed Production Support .....	15
Feed Production in Northern Regions .....	15
Table 17. Russia: Financing of Seed Supply Subsidies in the North.....	15
Flax Production .....	15
Table 18. Russia: Target Indicators for Flax Production.....	16
Table 19. Russia: Financing of Flax Production and Processing Support .....	16
Rapeseed Production.....	16
Table 20. Russia: Financing of Rapeseed Production Support .....	17
Perennial Plantings .....	17
Table 21. Russia: Financing of Perennial Plantation Subsidies .....	17
Viticulture .....	17
Table 22. Russia: Financing of Viticulture and Viniculture Support .....	17
Support of Economically Significant Provincial Programs .....	17
Table 23. Russia: Financing of Provincial Development Programs .....	18
<b>Financial Sustainability of Agriculture</b> .....	<b>18</b>
Improved Access to Credit.....	19
Table 24. Russia: Financing Credit Subsidies .....	19
Small Rural Enterprises.....	19
Table 25. Russia: Financing of Small Rural Enterprise Credit Subsidies .....	20
Table 26. Russia: Target Indicators for Small Rural Enterprise Credit.....	20
Development of the Russian Agricultural Bank and Its Branch Network .....	20

Table 27. Russia: Financing Increased Charter Capital of Rosselkhozbank.....	21
Modernization of Capital Stock.....	21
Table 28. Russia: Financing Capital Stock Modernization.....	21
Risk Management .....	21
Table 29. Russia: Financing Crop Insurance .....	21
Price Parity.....	22
Table 30. Russia: Financing Price Parity Support .....	22
<b>Agricultural Market Regulation .....</b>	<b>22</b>
Grain Market .....	22
Table 31. Russia: Target Indicators for Grain Market Support .....	22
Table 32. Russia: Financing Grain Market Support .....	23
Meat Market .....	23
Sugar Market.....	23
Agricultural Cooperative Markets.....	24
<b>Financial Resource Summary .....</b>	<b>24</b>
Table 33. Russia: Financing Summary, Agricultural Program 2008-2012 .....	24
<b>Analysis and Comment .....</b>	<b>27</b>
Basic Activities.....	28
Subsidy Schemes .....	28
Social Programs .....	29

## Summary

The Russian Government approved a program for development of agriculture, regulation of agricultural commodity markets, and rural development for the period 2008-2012 that involves expenditure of 1.1 trillion rubles (\$41 billion) over five years, split between federal and provincial budgets. The program's goals are sustainable rural development, increased rural employment and raising of rural living standards; improving competitiveness of Russian production agriculture; and natural resource conservation. Agricultural production is officially forecast to rise by 21.7% between 2007 and 2012 as a result of the program, with specific emphasis on boosting output of meat. The program specifies extension of the tariff-rate quota regime on imported meat after 2009, and abolition of the country allocations within the TRQ regime, as well as raising out-of-quota tariff rates.

Activity descriptions and Tables 2 through 33 in this report are based on the June 9, 2007, draft of the program published on the Ministry of Agriculture website. The original Russian text can be downloaded from [http://www.mcx.ru/images/download.html?pi\\_id=4943](http://www.mcx.ru/images/download.html?pi_id=4943).

## Overview of the Program

Adoption of a formal, overarching government program for development of production agriculture, rural development, and associated other agriculturally related activities represents a significant victory for Minister of Agriculture Aleksey Gordeyev, and not only in his battle with the economic ministries for financial resources. Gordeyev's ministry now clearly takes charge of agricultural land issues and rural development, problem areas over which he has sought authority for years.

The program for the period 2008-2012 is based on the Law on Development of Agriculture (see GAIN report RS-7005) that went into effect in January 2007. That law authorized programs and defined terms hitherto open to varying interpretations, laying the groundwork for a programmatic approach to formulating support for agriculture and rural development. Minister Gordeyev faced strong opposition from the Ministries of Economic Development and Trade and of Finance, which demanded specific programs with measurable goals and benchmarks.

The program envisions a doubling by 2012 of annual federal expenditures on agricultural support and rural development compared to the 2007 federal budget. Total federal funding for the period 2008-2012 is projected at 551.3 billion rubles (\$20.8 billion at current exchange rates). This funding will be supplemented by outlays of Russia's provincial governments, which are expected to total another 544.3 billion rubles (\$20.5 billion) over the same period. This will bring the total domestic outlays for agricultural support and rural development to nearly 1.1 trillion rubles over the five years of the program. In addition, the program intends to create conditions under which private investment will increase, particularly in order to renovate the existing stock of agricultural machinery. The program's intended output will be 4% annual growth in agricultural production, 5% in the livestock sector.

Funding of the program remains incomplete. The 2009 spending target is reportedly underfunded by 47 billion rubles, for 2010 by 70.9 billion rubles, and the budget for 2011 to 2012 has not yet been approved.

The program spells out three overarching goals, with several more specific goals falling under them. The goals are

- sustainable rural development
  - increased rural employment
  - higher standards of living in rural areas

- increased competitiveness of production agriculture
  - improved financial support
    - better access to credit
    - risk management
  - modernization
  - accelerated development of priority subsectors for import substitution
- conservation and regeneration of natural resources
  - soil conservation

To achieve these goals, the program identifies five basic directions for expenditure of funds:

- Sustainable rural development
- Creation of general conditions for functioning of agriculture
- Development of priority subsectors in agriculture
- Financial sustainability of agriculture
- Market regulation

These directions will be pursued through a series of “targeted programs”, each with its own budget appropriation. The overall budget resources to be requested for the programs, by direction, are presented in Table 1.

**Table 1. Russia: Government Program Resources for Development of Agriculture  
2008-2012, billion rubles**

Basic sections	Base 2007	2008	2009	2010	2011	2012	2008- 2012	2012/ 2007
<b>Sustainable rural development</b>	5.48	7.34	19.03	25.12	29.60	31.28	112.37	5.7x
<b>Creation of general conditions for functioning of agriculture</b>	4.70	9.86	12.92	13.78	14.66	15.33	66.55	3.3x
- including soil fertility support	4.20	8.17	10.67	11.40	12.20	12.98	55.42	3.1x
<b>Priority agricultural subsector development</b>	8.50	13.73	15.41	14.11	14.37	15.04	72.66	1.8x
<b>Financial sustainability of agriculture</b>	45.43	44.00	51.28	65.62	64.94	66.85	292.69	1.5x
- including improved access to credit	19.79	25.28	36.46	46.90	50.54	52.08	211.26	2.6x
<b>Agricultural product market regulation</b>	1.30	1.36	1.36	1.36	1.43	1.50	7.01	115.4%
<b>TOTAL:</b>	65.41	76.30	100.0	120.0	125.0	130.0	551.30	2.0x

Source: Ministry of Agriculture of the Russian Federation website, Power Point presentation by Minister of Agriculture Gordeyev to Prime Minister Fradkov, July 12, 2007.  
Exchange rate RUR 26.5 = \$1.00

In his presentation to Prime Minister Mikhail Fradkov and the rest of the Cabinet on July 12, 2007, Minister of Agriculture Gordeyev remarked that the State Duma and Federation Council (lower and upper houses of the Russian parliament, respectively) had proposed greater levels of financial support, and that Russia's Aggregate Measure of Support is presently on average half that of OECD<sup>1</sup> member states.

### Sustainable Rural Development

Russia's rural areas remain unevenly developed, with some regions having prospered in the past decade (particularly those near large, urban markets, and involved in production for those markets) but with many having suffered extreme poverty, depopulation, and other social ills ranging from alcoholism to low life expectancy. Sustainable rural development, the first direction of the national agricultural program, will involve execution of five tasks intended to improve living standards, quality of life, and rural demography. These tasks are:

- residential improvements,
- improvement of physical infrastructure in rural communities,
- development of social infrastructure and improvement of cultural and leisure conditions for rural dwellers,
- improvement of access to medical care, including emergency medicine, and development of sports and physical education, and
- improvement of access to education, including attraction of qualified teachers and other social work specialists to rural areas, with special emphasis on young specialists.

**Table 2. Russia: Financial Support for Development of Rural Infrastructure**  
million rubles

Direction	2008	2009	2010	2011	2012
<b>Total</b>	7,335.4	19,413.1	25,442.9	29,863.0	34,534.2
<i>Including via the Federal Targeted Program "Rural Social Development to 2010"</i>	5,885.42	6,142.0	6,541.3	-	-
Of which:					
- rural housing construction and affordable housing for young families and young specialists	4,500.0	14,039.0	16,874.0	20,461.4	24,569.0
<i>Including via the Federal Targeted Program "Rural Social Development to 2010"</i>	3,434.2	3,530.1	3,641.0	-	-
- rural water supply	1,000.0	2,797.0	4,700.0	4,850.0	5,100.0
<i>Including via the Federal Targeted Program "Rural Social Development to 2010"</i>	634.8	673.9	732.7	-	-
- other measures associated with this Federal Targeted Program	1,835.4	2,577.1	3,868.9	4,551.6	4,865.2
<i>Including via the Federal Targeted Program "Rural Social Development to 2010"</i>	1,816.42	1,938.0	2,167.0	-	-

Source: Ministry of Agriculture of the Russian Federation, Gosudarstvennaya Programma Razvitiya Sel'skogo Khozyaystva i Regulirovaniya Rynkov Sel'sokhozyaystvennoy Produktcii, Syr'ya i Prodoval'stviya, draft of June 9, 2007, Table 4.1, pp. 13-14.

<sup>1</sup> Organization for Economic Cooperation and Development, of which Russia is not a member.

The program provides for a series of measures to improve rural living standards and quality of rural life. The stated intent of these measures is to make rural life a more attractive alternative than it is now, to increase labor available to agriculture, and to stimulate investment in rural social structures. The specific tasks to be performed are:

- installation of basic engineering infrastructure for housing developments,
- improvement of the quality of architectural design of housing developments,
- raising availability to residents of rural housing developments of social, cultural and domestic services at a level equal to the Russian national average, and
- propagation of cutting-edge experience in rural residential housing development construction to all Russian provinces.

The project financing under this program envisions 275 such housing developments being constructed between 2008 and 2012, improving the lives of 6,525 families. The budget for this activity is to be as follows:

**Table 3. Russia: Financing for Rural Housing Development Improvement**  
million rubles

	2008	2009	2010	2011	2012
State support for rural housing developments	1,045.9	1,113.9	1,180.7	1,239.7	1,301.7
of which:					
-- funds for project implementation	996.1	1,060.8	1,124.5	1,180.7	1,239.7
-- project competition and selection	49.8	53.1	56.2	59.0	62.0

Source: *ibid.*, Table 4.2, p. 17.

### Creation of General Conditions for Functioning of Agriculture

This "direction" of the program is a catch-all for several apparently unrelated development and maintenance activities, some of which are desperately needed, but which indeed constitute the "general conditions" that in most Western countries underpin 21st-century agriculture. They include:

- maintenance of soil fertility,
- drafting of technical regulations to set standards for everything from inputs and fixed capital to finished products,
- a unified information system for agriculture,
- development of land mortgaging to improve access to credit,
- improvement of the rural labor supply plus creation of an extension service, and
- prioritization of scientific research.

### Soil Fertility

This set of activities revolves around traditional soil conservation measures (prevention of erosion, for example) but includes as well mineral fertilizer subsidies, mitigation of damage from the 1986 Chernobyl accident, scientific research, land reclamation, and also appears to cover maintenance of polders in Kaliningrad oblast. Through 2010 it will be carried out via the Federal Targeted Program "Conservation and Restoration of Soil Fertility on Agricultural Lands and Agrolandscapes as a National Treasure of Russia 2006-2010." A cost-sharing proportion is stipulated in the program, with each federal ruble to be matched by 1.5 rubles from provincial budgets and 5 rubles from "non-budget sources" (presumably private-sector investment). Projected federal financing (only) for soil fertility is shown in Table 4.

During the Soviet period, soil fertility declined dramatically due to inadequate attention paid to maintenance and restoration of humus. That coupled with continued use of traditional soil

cultivation (moldboard plowing and disk-harrowing) in areas prone to erosion has created serious problems in certain areas of Russia.

**Table 4. Russia: Financing of Soil Fertility Measures**  
million rubles

	2008	2009	2010	2011	2012
Capital investment in construction, reconstruction and renovation of land reclamation systems	5,206.1	6,035.0	6,010.2	5,947.9	6,259.5
- of which under the current Federal Targeted Program	4,206.1	3,635.0	3,644.1	-	-
Agricultural chemicals, including subsidies for mineral fertilizers and plant protectants	2,322.0	3,455.2	4,187.4	5,018.0	5,472.0
Flood prevention measures	286.6	498.1	507.0	550.0	540.0
Post-Chernobyl accident soil rehabilitation	167.1	176.2	183.3	190.0	195.0
Land reclamation at aquaculture ponds	60.0	60.0	60.0	62.0	64.0
Afforestation in agricultural areas and phyt prophylaxis in soils of Chernyy rayon and Kizlyar pastures <sup>2</sup>	38.6	347.8	356.5	370.0	375.0
Soil fertility monitoring based on agrochemical content and ecologo-toxicological testing	65.0	65.0	65.0	65.0	65.0
Scientific research and construction tests	29.0	-	-	40.0	36.0
<b>TOTAL from federal budget</b>	<b>8,174.4</b>	<b>10,637.3</b>	<b>11,369.4</b>	<b>12,195.9</b>	<b>12,982.5</b>

Source: *ibid.*, Table 5.2, p. 20.

### Provision of Information to the Agriculture Sector

The Law on Development of Agriculture stipulates that the Ministry of Agriculture will provide market information free of charge to market actors. As in any market economy, information drives markets in Russia, and lack of information biases the market in favor of the few who possess insider knowledge. Perhaps for this reason one still hears arguments in favor of keeping such information secret.<sup>3</sup> This may also well be the reason that for a certain period of time in the post-Soviet era, current market information was only available from the Ministry of Agriculture for a price, and then only to certain of those who asked for it. This program, in an apparent effort to break with past bad practices, establishes a "System of State Agricultural Information Delivery" specifically for the purpose of providing agricultural producers and rural residents with information they need to become more efficient producers.

Specific tasks of this activity are:

<sup>2</sup> The Chernaya Zemlya (Black Earth) preserve in Kalmykia and Kizlyar rayon in Dagestan are subject to desertification; this activity involves reduction of erosion of sandy soils through planting of windbreaks and grasses to anchor soils.

<sup>3</sup> Readers are reminded that from 1981 to 1986, all production data for grains in the Soviet Union were considered a state secret, were not published, and were withheld from the public. Data on carryover stocks were considered secret until the collapse of the Soviet Union. To this day, mortality rates of livestock are considered secret in certain of Russia's provinces.

- creation of government-sponsored information resources relevant to agribusiness, and making them accessible to local governments at all levels, agribusinesses, and the rural population; and
- creation of a government information-telecommunications system for electronic delivery of services, remote sensing data, and market news, and support of the Ministry of Agriculture's information system.

Initially, this effort will be carried out primarily under the Agency Targeted Program "Creation of a Unified System of Information Delivery to the Agroindustrial Complex (2008-2010)", with activities to be continued through 2012. It will also include additional activities not part of the targeted program, however. The budget for this item is shown in Table 5.

**Table 5. Russia: Financing of the System of State Agricultural Information Delivery**  
million rubles

	2008	2009	2010	2011	2012
Under the Agency Targeted Program "Creation of a Unified System of Information Delivery to the Agroindustrial Complex", including					
<i>Scientific research and construction tests</i>	200.9	150.3	73.9	80.1	100.0
<i>Capital investment</i>	212.8	216.5	299.3	315.0	315.0
<i>Other expenses</i>	134.5	327.4	355.0	370.0	389.0
Other program activities	24.0	308.0	293.0	285.0	70.0
TOTAL from the federal budget	572.2	1,002.2	1021.2	1050.1	874.0

Source: *ibid.*, Table 5.5, p. 23.

### Development of Land Mortgaging

Mortgaging of agricultural land was not legalized until January 2004 due to the obstinance of key members of the Russian Duma (lower house of parliament), mainly ideological holdovers from the Soviet era, who were appalled by the idea that land could be bought and sold like a commodity. Though mortgages of agricultural land have been legal since that time, the lack of institutions necessary to make mortgages a feasible means of making capital available to producers has inhibited their wide application. Much land, though technically privatized, remains in an ownership muddle due to the high cost of surveying, appraising and registering land parcels, coupled with high levels of official corruption that too often make land titling more trouble than it is worth.<sup>4</sup>

The intent of this aspect of the program is to expand access to credit via mortgages, specifically by:

- creation of a statutory and regulatory framework more conducive to loaning and borrowing of money via mortgages;
- reduction of transaction costs involved in transferring land from one owner to another;
- creation of institutions needed for a land mortgage-based credit system, in order to reduce transaction costs of putting up collateral;

<sup>4</sup> An article in *Gazeta* of July 11, 2007, titled "Bureaucrats' Tithe", for example, noted, "Participants of the III Forum of National Business...named two main factors constraining small and medium business development: corruption and the unreasonably high tax burden." In 2006, Russia tied with eight other countries for 121st place in the Transparency International "Corruption Perceptions Index" ([http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2006](http://www.transparency.org/policy_research/surveys_indices/cpi/2006)).

- provision of scientific and methodological support for development of land mortgaging; and
- education of agricultural producers on mortgage-based credit.

The success of this effort will be measured by aggregate loan volume in rubles and land area under mortgage, with specific "target indicators" spelled out, as follows:

**Table 6. Russia: Target Indicators for Adoption of Agricultural Land Mortgages**

	2006 actual	2007 est.	2008	2009	2010	2011	2012
Loans issued, billion rubles	2.1	4.7	6.0	9.9	16.7	29.4	54.7
Agricultural land under mortgage, million hectares	0.1	0.4	0.8	1.3	2.3	4.1	7.4

Source: *ibid.*, Table 5.5, p. 23.

The activities specified include revision of laws and regulations, simplifying and reducing the cost of land titling and registration, determining methodologies for land appraisal, and creation of a land registry. That these elementary steps still need to be taken 15 years after the fall of the Soviet Union is an indication of how far Russia has to go in terms of settling once and for all the question of who owns agricultural land, and paints a daunting near-term picture for those wishing to buy, sell, or mortgage land. The good news, of course, is that the Russian government appears finally to be willing to grasp the nettle and to take private ownership of agricultural land yet another step in the right direction.

No breakout of financing for support of land mortgaging is provided in the program document.

#### **Personnel Retraining and Extension Service**

No extension service exists in Russia, though sporadic efforts have been made by both provincial universities (notably the Voronezh Agricultural University) and the Association of Peasant Farms and Agricultural Cooperatives of Russia, and until April 2004 an extension office existed in the Ministry of Agriculture. Following Minister Gordeyev's statement on February 22, 2007, that his ministry would seek funding to create an extension service patterned after the U.S. model, it appeared in this program as "development of an information-consulting service to the agroindustrial complex."

The tasks of this activity are specified as:

- retraining of qualified personnel in agribusiness via educational institutions subordinate to the Ministry of Agriculture, and rendering of "consulting assistance" (i.e., extension services) to agricultural producers and the rural population;
- creation of a federal center for the "information-consulting" system;
- integration of provincial "information-consulting" centers and higher educational institutions subordinate to the Ministry of Agriculture; and
- integration of the "information-consulting" system with the proposed system of state agricultural information delivery.

This activity also provides for upgrades of equipment in Ministry of Agriculture educational institutions, financing of their efforts to create extension services, and creation of extension offices at the rayon (county) level via a grant mechanism. Financing of this system is shown in Table 7:

**Table 7. Russia: Financing of Personnel Retraining and Extension System**  
million rubles

	2008	2009	2010	2011	2012
Personnel retraining	520.0	550.0	600.0	600.0	600.0
Development of an extension service	100.0	397.3	455.4	513.5	568.6
TOTAL from the federal budget	620.0	947.3	1,055.4	1,113.5	1,168.6

*ibid.*, Table 5.7, pp. 25-26.

### Participation of Producer Associations in Formulation of Agricultural Policy

The program provides for inclusion of agricultural producer associations (e.g., the Meat Union, Dairy Union, Grain Union, and so on) in a partnership with the Russian executive branch to set agricultural policy. Starting with 2008, 32 producer associations are to be included in the program, with that figure rising to 44 associations by 2012. Participation will be via specific activities funded out of the federal budget, which the associations will implement on a matching-funds basis. Specifically, the program envisions:

- participation by producer associations in drafting of laws and regulations, targeted programs, and the annual national report on agriculture mandated by the Law on Development of Agriculture;
- propagation of scientific advances and innovations and preservation of the gene pools in both cropping and animal husbandry;
- development of technical regulations necessary in the agriculture sector;
- delivery of information needed to implement government agricultural policy, and monitoring of consumer demand;
- reform of standards used in agriculture with an eye to harmonizing them with international standards, adopting advanced technology, rationalizing resource use;
- assisting with implementation of a system of quality control based on international standards, quality improvement, and exchange of know-how, including conduct of competitions, field trips, and exhibitions on quality assurance.

Funding levels are to be as follows:

**Table 8. Russia: Financing of Activities of Agricultural Producer Associations**  
million rubles

	2008	2009	2010	2011	2012
TOTAL from the federal budget	250.0	300.0	300.0	300.0	300.0
of which:					
development of technical requirements for technical regulations	-	50.0	50.0	50.0	50.0

Source: *ibid.*, Table 5.10, p.27.

### Priority Agricultural Subsector Development

This section of the program document calls for a "leveling-out of disproportions that have arisen in the agro-food sector through support of such production as has high potential advantages on the domestic and international markets, but which without state support and regulation cannot fully achieve this potential." Included under this rubric are subsectors with long investment cycles and heavy demands for investment in physical capital infrastructure. Specific subsectors targeted by this program include beef cattle production, to improve both quantity and quality; and "traditional" livestock subsectors associated with certain ethnic

groups in the far north, Siberia, and far east, including reindeer, free-range horse herds, sheep, and goats.<sup>5</sup>

The program envisions raising the proportions of brood stock in the national livestock herds to 13% of bovines, 18% of swine and 11% of sheep by 2012, which is expected to "allow supply to producers of breeds adapted to local conditions and reduce production costs." The program also foresees a rise in demand for livestock feed that will result in growth in crop production by 30 to 40 percent. This in turn will require that not less than 10 to 15 percent of seedings be sown with elite seed, which implies improved access to improved seed. The program also encompasses support for production of flax, rapeseed and perennial plantings.

### **Support of Brood Livestock**

The intent of this activity is improvement of bloodlines of brood livestock. Program goals are to increase marketings of brood livestock by 2.3 times between the base year of 2006 and the program end year of 2012. The specific tasks include:

- stimulation of genetic improvement of brood livestock and poultry, and
- stimulation of brood livestock production with the intent of raising genetic standards to world levels.

Mechanisms to be applied include funds from the federal budget to match funding from provincial government budgets, stipulated as no less than 10% of expenses incurred, of activities to:

- maintain herds of female brood livestock, poultry and domesticated fish;
- maintain proven sires and sires awaiting completion of progeny testing;
- obtain, store and use semen from proven sires; and
- acquire sires by artificial insemination organizations.

Agricultural producers who possess a certificate of registration in the state brood register are eligible for subsidies. In addition, producers must meet the following requirements:

- ongoing increase or maintenance of female brood stock compared to previous-year levels,
- maintenance of calving, farrowing, lambing and foaling rates at no less than the following levels: 80 calves per 100 cows, 1,760 piglets per 100 sows, 95 lambs and kids per ewe and nanny, and 70 colts per 100 mares;
- annual marketing of brood livestock meeting breed standards of no less than the following percentages, based on livestock inventories on January 1: 10% of cows, 150 swine per 100 sows, 15% of ewes, 15% of mares, 30 to 80 percent of poultry, depending on type; and for other species, "no less than the technological norm."

Finally, because of the improved brood livestock will be made available through the state-owned leasing corporation, Rosagroleasing, federal funds will be used to increase the charter capital of that firm.

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<sup>5</sup> Traditionally, most Russian bovine breeds are "dual-purpose", i.e., used for production of both meat and milk. The "specialization" alluded to in the program documents refers to adoption of beef breeds, something heretofore not widely practiced in Russia.

**Table 9. Russia: Financing of Brood Livestock Improvement**  
million rubles

	2008	2009	2010	2011	2012
TOTAL from the federal budget	5,852.5	4,617.2	2,742.6	2,875.5	2,905.6
including:					
brood livestock maintenance subsidies	1,852.5	2,617.2	2,742.6	2,875.5	2,905.6
investment in Rosagroleasing's charter capital	4,000.0	4,000.0	4,000.0	-	-

Source: *ibid.*, Table 6.8, p. 31.

### Beef Cattle

This activity seeks to increase beef production through "optimization of the breed structure of beef and dairy cattle and introduction of basic technology in production of beef and beef cattle husbandry." The specific goals are growth in beef cattle inventories and growth in the proportion of high-quality beef through feeding of cattle of beef breeds. These goals are reflected in the following target indicators:

**Table 10. Russia: Targets for Beef Sector Improvement**

	2006 actual	2007 est.	2008	2009	2010	2011	2012
beef cattle inventory, thousand head	414	425	500	600	700	800	900
including cows, thousand head	168.7	170	200	240	280	320	260
beef production, carcass weight, from beef breeds, thousand metric tons	33.0	35.0	40.0	50.0	60.0	80.0	90.0

Source: *ibid.*, Table 6.1, p. 31.

The federal subsidies are paid to provincial governments for partial compensation of costs incurred by private livestock producers in maintenance of female brood beef cattle, and constitute matching funds contingent on the provincial governments contributing no less than 10% of said costs. The federal budget for this activity is projected as in Table 11.

**Table 11. Russia: Financing of Brood Beef Cattle Maintenance**  
million rubles

	2008	2009	2010	2011	2012
Subsidization of beef brood cows	0	850	1,000	1,050	1,102.5

Source: *ibid.*, Table 6.2, p. 32.

### Reindeer and Free-Range Horse Herds

The intent of this activity is to preserve traditional ways of life and to sustain rural employment of ethnic groups in the Russian far north, Siberia, and Russian far east; to utilize expanses of pastureland unsuitable for other types of livestock; and to increase output of horsemeat and reindeer products. Federal funding for this activity will be provided to match funding from provincial governments, which must be no less than 10% of the cost of maintenance of eligible reindeer and free-range horse herds. The specific program goals under this activity include:

- stabilization of reindeer inventories at a level of about one million head, and growth in free-range horse herds raised for meat;
- increasing employment where reindeer and free-range horse husbandry is traditionally practiced.

**Table 12. Russia: Financing of Reindeer and Free-Range Horse Maintenance**  
million rubles

	2008	2009	2010	2011	2012
Subsidization of reindeer and free-range horse husbandry	278.2	283.7	287.3	296.1	311.2

Source: *ibid.*, Table 6.4, p. 33.

### Sheep and Goats

This activity is intended to provide employment security and income for the population in areas where sheep and goat husbandry is a traditional economic activity, and to increase output of mutton, goat meat, and wool. The specific goals are:

- increase of the inventory of female brood stock, from 5,846,000 head in 2006 to 6.7 million in 2012, and
- increased employment.

Subsidies will be paid from the federal budget to provincial governments to compensate in part the costs of maintaining brood ewes and nannies, subject to matching of funds spent by the provincial governments that should constitute no less than 10% of such costs. Financing is budgeted as shown in Table 13.

**Table 13. Russia: Financing of Brood Ewe and Nanny Maintenance**  
million rubles

	2008	2009	2010	2011	2012
Subsidization of brood ewe and nanny maintenance	610.0	624.0	638.0	653.0	670.0

Source: *ibid.*, Table 6.5, p. 34.

### Epizootic Measures

The activity provides funding for veterinary health measures intended to combat epizootic threats, particularly "quarantine and especially dangerous animal diseases, including those of domesticated fish." Funds are to be used for provision of veterinary pharmaceuticals to program participants. There are two tasks:

- adopting a plan for handling outbreaks of foot-and-mouth disease, avian influenza, rabies, and other "quarantine and especially dangerous diseases,"
- and adopting a plan for diagnostic investigations intended to reveal cases of chronic infectious diseases like tuberculosis, brucellosis, and leucosis.

**Table 14. Russia: Financing of Epizootic Measures**  
million rubles

	2008	2009	2010	2011	2012
Financing of veterinary pharmaceuticals	2,535.0	2,817.0	2,817.0	3,099.0	3,125.0

Source: *ibid.*, Table 6.9, p. 35.

### Subcutaneous Botfly and Hypodermatosis

This activity is intended to cure the national bovine herd of hypodermatosis in the medium term. The goal is to eradicate hypodermatosis in bovines by 2010, a significant reduction from the 2006 infection rate of 30 percent. It will be implemented through the existing Agency Targeted Program "On Urgent Measures to Combat Subcutaneous Botflies, Prophylaxis and Curing Bovines of Hypodermatosis in the Russian Federation 2008-2012" authorized by Federal Law 4979-1 "On Veterinary Medicine".

Specific mechanisms include:

- scientific research into and experimental construction of facilities to improve diagnosis and treatment of hypodermatosis, as well as to prevent importation of the pest from foreign countries;
- autumn prophylactic treatment of bovines with systemic pharmaceuticals;
- spring treatment of affected bovines;
- acquisition of test kits and introduction of diagnostic methods; and
- revision of relevant veterinary statutes and regulations.

**Table 15. Russia: Financing of Eradication of Hypodermatosis  
million rubles**

	2008	2009	2010	2011	2012
scientific research and experimental construction	8.75	9.62	10.77	-	-
other	453.45	479.53	506.63	240.0	240.0
TOTAL from the federal budget	462.2	489.2	517.4	240.0	240.0

Source: *ibid.*, Table 6.10, p. 36

### Elite Seed Production

This activity envisions expansion by 2.5 times the sowing of elite seed in Russia, from 6% of planted area in 2006 to 15% of planted area in 2012. Subsidies will be extended for production of elite seed for the following crops: pulses, rice, corn, soybeans, sugar beet, potato, clover, and alfalfa. It is subject to fund matching by provincial governments of no less than 10% of the cost of acquisition of elite seed for eligible crops. Federal financing is shown in Table 16.

**Table 16. Russia: Financing of Elite Seed Production Support  
million rubles**

	2008	2009	2010	2011	2012
Subsidies for acquisition of elite seed	477.3	484.9	490.3	513.2	538.3

Source: *ibid.*, Table 6.13, p. 38-39.

### Feed Production in Northern Regions

The intent of this activity is to ensure adequate feed supplies for livestock in northern areas of Russia. Subsidies are spent on transport of seeds for planting forage crops, and are subject to funds being matched by provincial governments, with a requirement that provincial governments cover no less than 10% of the cost of seed, including transportation. Federal funding is shown in Table 17.

**Table 17. Russia: Financing of Seed Supply Subsidies in the North  
million rubles**

	2008	2009	2010	2011	2012
Subsidies for seed supply in the north	100.0	106.5	112.9	118.5	124.5

Source: *ibid.*, Table 6.15, p. 40.

### Flax Production

This activity is intended to raise the competitiveness of domestic raw material for the flax processing industry by increasing output of flaxseed and flax fiber. The activity will be carried out in the framework of the Agency Targeted Program "Development of the Flax Complex of Russia 2008-2010" with continuation into 2011 and 2012. The targets for this program are shown in Table 18.

**Table 18. Russia: Target Indicators for Flax Production**  
thousand metric tons

	2006 actual	2007 est.	2008	2009	2010	2011	2012
Gross harvest of flaxseed	7.2	12.6	27.5	34.5	36.7	38.9	41.2
Gross harvest of flax fiber	36.2	43.7	77.0	86.0	96.0	107.0	120.0

Source: *ibid.*, Table 6.16, p. 40

Program funds are to be used for the following:

- compensation of cost of acquisition of elite seeds for planting of flax,
- direct payments to producers of flax for each ton of flax produced,
- scientific research into and experimental construction of new resource-conserving technologies, highly productive machinery and next-generation equipment, and
- government capital investment into construction, renovation, upgrading and modernization of the flax processing industry,

Federal financing is contingent on matching funds from provincial governments, which should cover no less than 10% of the cost of elite seed acquisition and direct payments to producers. Funding from the federal budget is shown in Table 19.

**Table 19. Russia: Financing of Flax Production and Processing Support**  
million rubles

	2008	2009	2010	2011	2012
Interest rate subsidies	22.67	16.4	13.73	12.6	13.12
Elite seed subsidies	22.76	23.99	25.29	22.9	24.09
Flax production subsidies	231.0	258.0	288.0	262.0	275.62
Scientific research and experimental construction	23.46	22.31	22.02	20.1	21.13
Government capital investment	355.37	314.06	246.82	224.4	236.04
TOTAL from the federal budget	655.26	634.76	595.86	542.0	570.0

Source: *ibid.*, Table 6.17, p. 41

### Rapeseed Production

This activity envisions increasing area sown to rapeseed from 538,000 hectares in 2006 to 2 million hectares in 2012, and boosting output of rapeseed from 592,000 metric tons in 2006 to 3 million metric tons in 2012. It will incorporate and extend the Agency Targeted Program "Development of Production and Processing of Rapeseed in the Russian Federation 2008-2010". Funds are paid through the provincial governments, subject to fund matching requirements, for the following:

- subsidized acquisition of elite seed for planting,
- partial compensation of the cost of agricultural chemicals,
- interest rate subsidies, and
- subsidized scientific research and experimental construction.

Provincial governments are required to cover not less than 10% of the cost of elite seed and agricultural chemical acquisition, and not less than one third of the Central Bank of Russia refinance rate on eligible loans. Funding for this activity is shown in Table 20.

**Table 20. Russia: Financing of Rapeseed Production Support**  
million rubles

	2008	2009	2010	2011	2012
Interest rate subsidies	142.2	142.1	137.6	155.35	156.6
Agricultural chemical subsidies	415.6	549.2	696.5	786.35	791.4
Elite seed subsidies	55.4	73.2	92.9	105.8	106.7
Scientific research and experimental construction	43.0	45.7	48.7	55.0	55.3
TOTAL from the federal budget	656.2	810.2	975.7	1,102.5	1,110.0

Source: *ibid.*, Table 6.19, p. 43

### Perennial Plantings

This activity is intended to stimulate production on plantations with perennial crops, such as fruit orchards, berry farms, horticultural nurseries, hop yards, and tea plantations. Area planted to such crops is targeted to rise from the 2006 level of 6,400 hectares to 11,000 hectares by 2012. Funding from the federal budget is subject to provincial governments matching funds, covering not less than 10% of the cost of planting and maintaining eligible perennials.

**Table 21. Russia: Financing of Perennial Plantation Subsidies**  
million rubles

	2008	2009	2010	2011	2012
Perennial planting and maintenance subsidies	351.2	570.0	650.0	725.0	885.0

Source: *ibid.*, Table 6.21, p. 44

### Viticulture

This activity's goal is expansion of area under vineyards and of production of wine. Vineyard area is to be increased from the 2006 level of 5,900 hectares to 8,900 hectares by 2012. It will incorporate and extend the Agency Targeted Program "Development of Viticulture and Viniculture of the Russian Federation 2008-2010". Funding is to be used for direct payments to wine grape producers in compensation for planting of grape vines and maintenance of "young" vineyards. Federal financing is subject to fund matching by provincial governments, which must cover not less than 10% of the cost of planting vineyards and maintenance of young vineyards. Additional funding is to be used for scientific research into and experiments related to breeding of new grape varieties, clones, and root stock; production technology; wine production from promising new varieties, and methods of identifying wines.

**Table 22. Russia: Financing of Viticulture and Viniculture Support**  
million rubles

	2008	2009	2010	2011	2012
Scientific research and experiments	40.83	47.53	46.68	49.0	51.4
Interest rate subsidies	4.92	9.53	13.21	14.0	14.5
Planting and maintenance subsidies	563.6	564.5	658.1	691.0	726.1
TOTAL from federal budget	609.35	621.56	718.0	754.0	792.0

Source: *ibid.*, Table 6.23, p. 45

### Support of Economically Significant Provincial Programs

This is the economic development portion of the program, with the intent of stimulating sustainable rural development across Russia. Tasks are listed as:

- motivation of Russian provincial authorities to develop and finance programs of sustainable rural development in their respective provinces,

- leveling out of financial conditions for rural development across Russia's provinces, and
- support for modernization and development of traditional agricultural subsectors in particular provinces.

Target indicators include improvement in the standard of living in beneficiary areas, accelerated growth in agriculture in beneficiary areas, and improvement in the quality of agrarian socio-economic programs in particular Russian provinces. All Russian provinces that have prepared comprehensive development programs for either an agricultural subsector or for rural development are eligible to compete for federal funding. An annual contest will be staged by the Ministry of Agriculture to select provinces for funding. Programs should incorporate one or more of the following:

- production support (agricultural, processing, input, marketing, services) with a significant impact on the socio-economic sustainable development of the province's rural areas,
- support for a traditional agricultural subsector that is significant for sustainable socio-economic development of the province, but which is not listed as a priority sector in this government program,
- creation of conditions for development of a new rural economic sector in the province that will influence significantly sustainable growth and rural development.

The provincial governments are expected to have included these activities in their local budgets, and to cover not less than 50% of the project cost (30% for provinces considered net "recipients" from the federal budget.)

**Table 23. Russia: Financing of Provincial Development Programs**  
million rubles

	2008	2009	2010	2011	2012
Support of provincial programs of rural development	-	1,000	1,000	1,000	1,000

Source: *ibid.*, Table 6.24, p. 48

### Financial Sustainability of Agriculture

This section of the program document covers creation of "basic general conditions" for "efficient functioning of the agrofood sector," including creation of an extension service, institutions necessary for mortgaging of agricultural land, and fundamental technical regulations. The program promises to begin the process of reform of the system that provides personnel to agriculture and rural areas, and to reorient agricultural scientific research to priority directions of the program.

The program document notes that through 2012, Russian agrarian policy will be based on the following "necessities":

- continuation of the favorable tax regime enjoyed by production agriculture (the unified agricultural tax); and
- improvement of land statutes with the intent of reducing transaction costs associated with sale and purchase of agricultural land, making more "orderly" rules limiting rezoning of agricultural land for other purposes, but without reducing the nation's "agricultural potential," and accelerating work on a land cadastre.

The program document additionally calls for creation of autonomous producer organizations that will assist in formulation of agricultural policy and in implementing portions of that policy. It promises to raise average profitability in the agricultural sector to 10%, and to reduce the number of unprofitable farms to not more than 30% of the total. It articulates continuation of the current program for restoring the financial health of the agricultural sector.

Amendments are proposed to current bankruptcy statutes that will permit preservation of agricultural production potential of bankrupt farms, easier entry into agricultural production by outside investors, better protection of rights of landowners and employees of former state and collective farms.

### Improved Access to Credit

This activity involves expansion of current efforts to make credit more easily accessible by agricultural producers. The principal mechanism is interest-rate buydowns on commercial loans, constituting up to two thirds of the Central Bank of Russia refinance rate. A matching funds requirement is imposed on participating provinces of Russia, which are required to contribute up to one third of the Central Bank of Russia refinance rate. The program authorizes these subsidies for short-term credit (annual production loans), 3-year loans for farm machinery and implements, brood livestock, and storage facilities for potatoes, fruits and vegetables; 5-year loans on brood livestock, domestic-origin machinery and equipment for livestock farms, and commercial aquaculture; and for 8-year loans for construction, renovation, and modernization of livestock complexes, and commercial fish farms.

The Ministry of Agriculture is required to publish annually a comprehensive list of items for which these subsidies are eligible.

**Table 24. Russia: Financing Credit Subsidies**  
million rubles

	2008	2009	2010	2011	2012
Short-term credit	6,000.0	9,000.0	10,000.0	10,500.0	11,025.0
Investment credit	16,826.7	25,427.0	30,427.0	31,821.0	32,753.8
TOTAL from federal budget	22,826.7	34,427.0	40,427.0	42,321.0	43,778.8

Source: *ibid.*, Table 7.2, p. 52

### Small Rural Enterprises

This activity promotes production on and marketing from small rural enterprises, including both peasant farms and private subsidiary plots, and seeks to increase rural incomes. The fundamental goals are:

- improved access to credit by peasant farms, private plot producers, and agricultural consumer cooperatives;
- development of the agricultural credit cooperative system;
- creation and development of a network of agricultural input, marketing and processing cooperatives; and
- increasing rural incomes.

Program success will be judged by the growth rates of product marketing from peasant farms and private plots, growth in gross receipts by cooperatives, and the volume of credit extended to small rural enterprises. The mechanism consists of an interest rate buydown equal to 95% of the Central Bank of Russia refinance rate on loans of up to 8 years for agricultural activity, and 50% of the CBR refinance rate on loans of up to 5 years for non-agricultural activity.

There are specific restrictions on how such loans may be used, based on loan tenor and category of borrower (peasant farmer, private plot, or cooperative). The loans for non-agricultural activity are intended to develop alternative employment opportunities in rural areas, and are subject to fund matching by provincial governments of another 50% of the CBR refinance rate. Federal funding for this activity will be channeled through two state-owned banks, the Russian Agricultural Bank (Rosselkhozbank) and Sberbank.

**Table 25. Russia: Financing of Small Rural Enterprise Credit Subsidies**  
million rubles

	2008	2009	2010	2011	2012
Interest-rate subsidies on loans up to 8 years	5,514.3	5,786.0	7,142.2	7,340.6	7,661.6
Interest-rate subsidies on loans for creation of alternative employment	100.5	226.1	346.7	527.6	678.4
<b>TOTAL</b>	<b>5,614.8</b>	<b>6,012.1</b>	<b>7,488.9</b>	<b>7,868.2</b>	<b>8,340.0</b>

Source: *ibid.*, Table 7.4, p. 57.

**Table 26. Russia: Target Indicators for Small Rural Enterprise Credit**

	2006	2007	2008	2009	2010	2011	2012
Growth rate of commodity output on peasant farms and private plots, % of base period (2006)	3	3	6	8.5	10.5	12.0	13.0
Growth rate of gross receipts from product marketing by agricultural consumer cooperatives, % of base period (2006)	20	20	25	30	35	40	45
Volume of credit attracted by peasant farms, private plots and agricultural consumer cooperatives and rural residents, billion rubles	30.0	30.0	35.0	40.0	45.0	50.0	55.0

Source: *ibid.*, Table 7.3, p. 57.

### Development of the Russian Agricultural Bank and Its Branch Network

This section of the program continues an ongoing effort to expand the Russian Agricultural Bank's branch network, with a goal of putting a branch in every rayon of Russia, and using that network to extend credit to all agricultural producers regardless of "form of ownership and management."<sup>6</sup> The specific tasks set out in the program document call for:

- attraction of credit resources for agribusiness project finance,
- stimulation of agribusiness investment, and
- attraction of long-term financial resources for investment in capital projects, including social and engineering infrastructure.

In addition to opening a branch of Rosselkhozbank in every rayon of Russia, the program provides for increasing the bank's charter capital and credit portfolio, pushing the bank to loan money through agricultural credit cooperatives in rural municipalities, to introduce new

<sup>6</sup> Russian agricultural production is organized into a confusing mix of private and corporate forms of ownership. Over half of food produced in Russia is grown or raised on "private subsidiary plots" averaging slightly more than an acre in size. Roughly six percent of food is produced on "peasant farms" that legally are constituted as private enterprises attached to a physical person. The remainder, about 40 percent of food, is produced on former state and collective farms incorporated in one of several forms of corporate status. They include the "OOO" (limited liability company), the "TOO" (limited liability partnership), the "ZAO" (closed joint-stock company), the "OAO" (open joint-stock company), and the "SPK" (agricultural production cooperative), not to mention the legacy "kolkhoz" (collective farm, technically a form of cooperative) and "sovkhoz" (state farm, often registered as a "FGUP", or federal government unitary enterprise). Some farms are registered simultaneously as multiple entities in order to take advantage of tax and credit benefits, and some managers change organization type periodically when amendments to the tax code make it worthwhile.

credit products that meet demand for financing of social and engineering infrastructure, residential construction, medical care, and education. It also calls for delivering bank services directly to clients where they work and live.

**Table 27. Russia: Financing Increased Charter Capital of Rosselkhozbank**  
million rubles

	2008	2009	2010	2011	2012
Federal funding of increase of Rosselkhozbank's charter capital	5,700	1,000	1,000	1,000	1,000

Source: *ibid.*, Table 7.5, p. 58.

### Modernization of Capital Stock

This activity funds a limited overhaul of productive capital in production agriculture. The intent is to stimulate adoption of contemporary technologies and creation of conditions for broad application of high-technology machinery. The mechanisms consist of interest-rate buydowns on loans for high-technology machinery, and an increase in the charter capital of the state-owned leasing company, Rosagroleasing.

The interest-rate buydowns are set at two thirds of the CBR refinance rate from federal funds and one third of that rate from provincial funds, and are available for capital investment loans of up to 10 years tenor.

**Table 28. Russia: Financing Capital Stock Modernization**  
million rubles

	2008	2009	2010	2011	2012
Subsidies for interest-rate buydowns on loans for high-technology agricultural equipment	2,450	5,360.1	8,450	10,297.4	11,547.4
Federal investment in Rosagroleasing's charter capital	4,000	2,000	-	-	-
TOTAL from federal budget	6,450.0	7,360.1	8,450.0	10,297.4	11,547.4

Source: *ibid.*, Table 7.7, p. 60.

### Risk Management

This activity seeks to reduce risks of income loss in the event of natural catastrophe, and consists of state support of agricultural crop insurance. Its goal is to increase area covered by crop insurance from 18% of planted area in 2006 to 40% in 2012. The government support program consists of a 40% buydown of crop insurance premiums on grains, oilseeds, industrial crops (e.g., sugar beets), forage crops, cucurbits, potatoes, vegetables, perennial plantations (vineyards, orchards, berry farms, hop yards and tea plantations) as a result of natural perils (drought, frost, winterkill, hail, dust and sand storms, earthquake, avalanche, mudslides, flooding, and soil supersaturation.)

Federal funding is contingent on matching funds by provincial governments, which must be not less than 10% of the cost of insurance premiums.

**Table 29. Russia: Financing Crop Insurance**  
million rubles

	2008	2009	2010	2011	2012
Subsidies for 40% buydown of crop insurance premiums	3,400	4,000	4,200	4,500	5,000

Source: *ibid.*, Table 7.9, p. 61.

### Price Parity

This activity seeks to support price parity between prices paid by and price paid to commodity producers. It specifically addresses rising prices for industrial inputs and articulates the goal of "stabilization of financial-economic conditions of agricultural commodity producers" and "increasing the investment attractiveness of agriculture." The activity will compensate producers for rises in the cost of industrial inputs that exceed the inflation rate. Curiously, the budget for this activity appears for only one year, 2010.

**Table 30. Russia: Financing Price Parity Support  
million rubles**

	2008	2009	2010	2011	2012
Price parity support payments	-	-	5,550.8	-	-

Source: *ibid.*, Table 7.10, p. 62.

### Agricultural Market Regulation

The stated intent of this program direction is improvement of competitiveness of Russia's agrofood products, import substitution, and income support for Russian agricultural commodity producers. The tasks set forth are:

- agricultural commodity price stabilization for both producers and consumers,
- support of a level of profitability that allows production to grow,
- stimulation of growth of exports,
- improvement in the quality of livestock products, and
- development of commodity marketing infrastructure on the domestic market, including creation of a network of input and marketing agricultural cooperatives.

The goals of this direction include raising the share of domestically produced foodstuffs on the Russian market from 63% in 2006 to 70% in 2012, reducing the share of imported meat from 35% of the market in 2006 to 25% in 2012, and raising the share of sugar from sugar beets from 55% in 2006 to 65% in 2012.

### Grain Market

The program seeks to stabilize price trends on the grain market, "[support] competitiveness of Russian grain on the world market," and raise incomes of agricultural commodity producers. The tasks are:

- smoothing of seasonal grain price fluctuations,
- growth of incomes of commodity producers, and
- stimulation of grain exports.

**Table 31. Russia: Target Indicators for Grain Market Support**

	2006	2007	2008	2009	2010	2011	2012
Grain marketed, million metric tons	40.5	43.1	44.5	46.0	47.5	48	50
Volume of grain used as loan collateral, million metric tons	-	-	0.36	1.2	1.9	3.0	4.3
Grain exports, million metric tons	11.2	13	13.5	14	14.5	15	15

Source: *ibid.*, Table 8.2, p. 64.

The implementation mechanism will involve the following:

- development of grain supply and demand balances by crop with the goal of achieving an optimal balance of production and consumption, and providing information for decisions on commodity interventions and support for grain exports;
- commodity interventions and commodity forfeiture against government support; and
- grain market monitoring and analysis to support decisions on restricting exports, conduct of commodity interventions.

**Table 32. Russia: Financing Grain Market Support**  
million rubles

	2008	2009	2010	2011	2012
TOTAL from the federal budget	1,350.0	1,360.0	1,363.0	1,430.0	1,501.3
including:					
Commodity interventions, grain and other significant crops	1,300.0	1,300.0	1,300.0	1,365.0	1,433.3
Grain crop and market monitoring	50.0	60.0	63.0	65.0	68.0

Source: *ibid.*, Table 8.3, p. 65.

### Meat Market

This activity intends to increase the competitiveness of domestic meat production, to substitute domestic product for imports, to expand marketing channels for domestic products, and to support income of agricultural commodity producers. The tasks are:

- reduction of cost of production of livestock products,
- raising the quality of domestic meat products,
- support for profitability in order to attract investment for expansion of production,
- expansion of marketing opportunities through creation of a network of agricultural input and marketing cooperatives.

Methods of implementing these tasks include:

- developing supply and demand balances of meat, by type (beef, pork, poultry meat) with the goal of "optimal planning of the structure of production and consumption;"
- extension of the tariff-rate quota regime on imported meat after 2009, and abolition of the country allocations within the TRQ regime, as well as raising out-of-quota tariff rates;
- development and implementation of meat standards harmonized with international standards as set by the United Nations Economic Commission for Europe;
- subsidization of investment credit for construction and renovation of slaughter, processing and storage facilities for meat, and acquisition of special vehicles for transport of livestock; and
- subsidization of connection to utilities by newly constructed livestock complexes.

### Sugar Market

This activity provides for import substitution through restrictions on sugar imports and support of incomes of sugar producers. The tasks are:

- support of a profitability level that attracts investment to expand production, and
- growth of sugar production using domestic sugar beets.

Included in the import restrictions are "raw sugar, granulated sugar, and certain sugar-containing foodstuffs".

### Agricultural Cooperative Markets

This activity seeks to provide for marketing channels for domestic agricultural products, and thereby to increase producer incomes. The task is to support construction and renovation of agricultural markets managed by agricultural consumer cooperatives.

The program document cites Federal Law 271 "On Retail Markets and On Amendment of the Labor Code of the Russian Federation", which stipulates that half the traders at markets operated by agricultural cooperatives must be members of that cooperative. In order to make trading at and investment in these markets more attractive, the activity envisions subsidization of interest paid on loans to upgrade these markets.

### Financial Resource Summary

**Table 33. Russia: Financing Summary, Agricultural Program 2008-2012**  
million rubles

	Baseline 2007	2008	2009	2010	2011	2012
Sustainable rural development	5,484.4	8,381.3	20,527.0	26,623.6	31,101.9	31,290.0
of which:						
<i>development of rural social and engineering infrastructure</i>	5,484.4	7,335.4	19,413.1	25,442.9	29,862.2	30,050.0
of which:						
rural housing	3,178.6	4,000.0	14,789.0	17,024.0	20,406.0	20,500.0
water supply	570.3	1,500.0	2,675.1	4,000.0	4,824.7	4,900.0
gas supply	881.6	958.3	1,042.0	1,132.9	1,189.5	1,190.0
other (schools, clubs, medical service, etc.)	853.9	877.1	907.0	3,286.0	3,442.0	3,450.0
<i>Rural standard of living improvement</i>	0.0	1,045.9	1,113.9	1,180.7	1,239.7	1,240.0
of which:						
subsidies for sustainable rural development		1,045.9	1,113.9	1,180.7	1,239.7	1,240.0
Creation of general conditions for the functioning of agriculture	4,869.5	9,789.2	13,066.6	13,925.7	14,847.7	15,522.7
of which:						
<i>Soil fertility</i>	4,199.9	8,174.4	10,637.3	11,369.4	12,195.9	12,982.5
of which:						
capital investment	3,322.9	5,206.1	6,035.0	6,010.2	5,947.9	6,259.5
other, of which:	843.6	2,939.3	4,602.3	5,359.2	6,208.0	6,687.0
mineral fertilizer subsidies	250.0	2,322.0	3,455.2	4,187.4	5,018.0	5,472.0
flood prevention	275.6	286.6	498.1	507.0	520.0	540.0

agricultural chemicals and agricultural afforestation	37.1	38.6	347.8	356.5	370.0	375.0
scientific research and experimental construction	33.4	29.0			40.0	36.0
<i>Government agricultural information delivery</i>		572.2	1,002.2	1,021.7	1,050.1	874.0
<i>Simplification of agricultural land registration</i>						
<i>Personnel training and extension services</i>	500.0	620.0	947.3	1,055.4	1,113.5	1,168.6
of which:						
development of an extension service		100.0	397.3	455.4	513.5	568.6
<i>Participation of producer associations in innovation</i>		250.0	300.0	300.0	300.0	300.0
Development of priority sectors of agriculture	8,545.0	12,587.3	13,909.1	12,545.1	12,891.3	13,364.1
<i>Priority development of livestock production</i>	7,775.0	9,737.9	9,681.1	8,002.3	8,213.6	8,354.3
of which:						
Support of livestock production		0.0	850.0	1,000.0	1,050.0	1,102.5
Development of reindeer and free-range horse herding	250.0	278.2	283.7	287.3	296.1	311.2
Development of sheep and goat husbandry	300.0	610.0	624.0	638.0	653.0	670.0
Support of brood livestock development	5,325.0	5,852.5	4,617.2	2,742.6	2,875.5	2,905.6
of which:						
Support of brood livestock	1,325.0	1,852.5	2,617.2	2,742.6	2,875.5	2,905.6
Government investment in the charter capital of Rosagroleasing	4,000.0	4,000.0	2,000.0			
Epizootic measures	1,900.0	2,535.0	2,817.0	2,817.0	3,099.0	3,125.0
Botfly and hypodermatitis eradication		462.2	489.2	517.4	240.0	240.0
<i>Development of priority crop sectors</i>	770.0	2,849.4	3,228.0	3,542.8	3,677.7	4,009.8
Support of elite seed production	260.0	477.3	484.9	490.3	513.2	538.3
Northern forage crop production	60.0	100.0	106.5	112.9	118.5	124.5

Development of flax production	80.0	655.3	634.8	595.9	542.0	570.0
Development of rapeseed production		656.2	810.2	975.7	1,025.0	1,100.0
Development of horticulture	190.0	351.2	570.0	650.0	725.0	885.0
Development of viticulture and viniculture	180.0	609.4	621.6	718.0	754.0	792.0
<i>Support of economically significant provincial programs</i>			1,000.0	1,000.0	1,000.0	1,000.0
Achievement of financially sustainable agriculture	32,232.8	44,003.9	53,114.3	61,104.2	65,518.4	69,096.2
<i>Improved access to credit by commodity producers</i>	19,790.1	22,826.7	34,427.0	40,427.0	42,321.0	43,778.8
of which:						
interest-rate subsidies on short-term credit	6,177.7	6,000.0	9,000.0	10,000.0	10,500.0	11,025.0
interest-rate subsidies on investment credits of up to 10 years tenor	13,612.4	16,826.7	25,427.0	30,427.0	31,821.0	32,753.8
<i>Rural small enterprise development</i>	5,042.7	11,327.2	7,327.2	8,027.2	8,400.0	8,770.0
of which:						
interest-rate subsidies on credits for small rural enterprises	5,042.7	5,526.7	6,101.1	6,680.5	6,872.4	7,091.6
interest-rate subsidies on credits for creation of alternative employment opportunities		100.5	226.1	346.7	527.6	678.4
development of Roselkhozbank and its branch network		5,700.0	1,000.0	1,000.0	1,000.0	1,000.0
<i>Modernization of agricultural capital stock</i>	4,000.0	6,450.0	7,360.1	8,450.0	10,297.4	11,547.4
of which:						
interest-rate subsidies on credit up to 10 years for acquisition of agricultural machinery		2,450.0	5,360.1	8,450.0	10,297.4	11,547.4
Russian Federation investment in the charter capital of Rosagroleasing	4,000.0	4,000.0	2,000.0			
<i>Risk reduction in agriculture</i>	3,400.0	3,400.0	4,000.0	4,200.0	4,500.0	5,000.0
Agricultural market regulation	1,296.0	1,350.0	1,360.0	1,363.0	1,430.0	1,501.3
<i>Grain market development</i>	1,296.0	1,350.0	1,360.0	1,363.0	1,430.0	1,501.3

of which:						
commodity interventions	1,296.0	1,300.0	1,300.0	1,300.0	1,365.0	1,433.3
grain market monitoring		60.0	60.0	63.0	65.0	68.0
price parity support				5,550.8		
TOTAL	52,258.1	75,939.1	101,797.1	120,933.2	125,601.1	130,576.7

Source: *ibid.*, pp. 68-71.

### Analysis and Comment

In his presentation to Prime Minister Mikhail Fradkov and the rest of the Cabinet on July 12, 2007, Minister of Agriculture Aleksey Gordeyev remarked, "...exactly 25 years ago at the May plenum of the Central Committee of the Communist Party of the Soviet Union the USSR Food Program was adopted. It envisioned increasing volumes of output and consumption of basic foodstuffs, development of production infrastructure, improvement of rural social and living conditions, and strengthening of the role of science in agriculture." Gordeyev added that in that era, agricultural support absorbed 20 percent of the Soviet Union's state budget. He then justified promulgation of the new government program for agricultural development on the grounds that "the program-target method in economics produced positive results even during the difficult 1980s" and would be equally successful under "new conditions – conditions of a market economy."

In consciously harkening back to policies of the Brezhnev era, Minister Gordeyev unconsciously reflected the tone of the program document as well as its intent. The new program is designed both to increase gross output of agriculture, like the Brezhnev Food Program, and to reassert the state's role in managing agriculture, explicitly by setting targets, after the *laissez faire* approach of the 1990s.

That said, Gordeyev's "food program" differs from Brezhnev's in several important respects. Gordeyev's program emphasizes import substitution; Brezhnev's program institutionalized the Soviet Union's position as the largest grain importer in the world in order to support expansion of livestock production. Brezhnev's program relied heavily on the Academy of Agricultural Sciences and its affiliated institutes to conduct research and to propagate knowledge; Gordeyev's program ignores the Academy and creates a U.S.-style extension service based in the Ministry of Agriculture's higher education system. Brezhnev's program focused exclusively on increasing output, with the result that 20 percent of the domestic grain crop and half of the potato crop was lost in the field or rotted before it could be consumed; Gordeyev's program calls for creation of a comprehensive market information system, new marketing channels (via cooperatives), and expansion of processing facilities so gains in production are not lost. Perhaps most important, Brezhnev's program was founded on the principal of state ownership of all means of production; Gordeyev's program seeks to breathe life into the moribund mortgage system so landowners can borrow money against their private real property.

Except for certain region-specific conservation activities (e.g., mitigation of desertification in Kalmykia and Dagestan) the geographic scope of program activities is not spelled out. In practice, then, the program will certainly be implemented unevenly across Russia, for due to the cost-sharing requirements, its scope and reach will be determined by the ability of provincial governments to match funds. This means that wealthy provinces (e.g., ore-producing provinces like Belgorod oblast, or petroleum producers like Tyumen oblast) may well benefit more from the new program than will poorer regions unable to meet cost-sharing requirements.

The state program *de facto* articulates activities of three types. First are basic activities necessary to modern, knowledge-intensive production agriculture. Second are subsidy schemes intended to sustain or revive uncompetitive subsectors under the guise of making them competitive. Third are overt and covert social programs intended to slow or stop rural flight.

### **Basic Activities**

Into this category fall the foundations of modern agriculture: programs for professional training, extension, credit (including mortgages), market information, soil conservation, and non-governmental organization participation in policy formulation.

This list of activities is long awaited. The program solidifies the tiny cooperative credit system, initiated in 1995 in Volgograd oblast, which was subsequently expanded with German and U.S. financial support in 1999, and then expanded again under the National Priority Project (see GAIN reports RS-5086 and RS-7020). Including credit cooperatives in this program document, and continuing the flow of capital to and through them, are positive steps.

The market information and extension programs revive previously terminated projects. In the 1990s, USDA and the World Bank assisted the Ministry of Agriculture in developing a market news system (USDA's Agricultural Marketing Service and Economic Research Service started market news reporting in three Russian provinces, and the World Bank ARIS program funded its rollout nationwide.) That project was halted in 1999 due to lack of interest on the part of the Russian Ministry of Agriculture. A small extension service project was scuttled in April 2004 as part of the Russian government administrative reform. Resurrection of these efforts is another positive step.

Mortgaging of agricultural land, as noted above, was legalized in January 2004, but in the intervening 3-1/2 years has not emerged as a major source of funds for financing agriculture. The lack of institutions, continued difficulties with titling, deeding and registering land parcels, and high costs of appraising and surveying land have conspired to keep a land market from forming and a mortgage industry from emerging. The new program may well help to bring badly needed commercial liquidity to Russian production agriculture.

Modern agriculture, with its reliance on high technology ranging from global positioning systems on farm implements to molecular biology, is a science- and knowledge-intensive sector of the economy. Glaringly missing from this program is mention of the scientific foundation of Russian agriculture. The Academy of Agricultural Sciences, for several years in crisis and with a majority of its membership well past its prime, is no longer viewed by either commercial agribusinesses or the Russian government as a major source of innovation, scientific advances, or useful research. Expansion of elite seed production, genetic improvement of livestock, and adoption of other modern technologies will thus depend on know-how imports from abroad coupled with highly concentrated work of a small number of institutes that have retained serious research and development capabilities. Left alone, the Academy of Agricultural Sciences may well wither away, and it is not yet clear what model of agricultural scientific research might replace it.

### **Subsidy Schemes**

Outright producer subsidies for grain, meat, and sugar producers, while cloaked in the garb of increasing "competitiveness," are little more than overt import substitution programs. Minister Gordeyev and others in the agricultural leadership are well aware that expansion of livestock production will *ceteris paribus* consume Russia's current exportable grain surpluses. Unmentioned in the program, but implicit to it, is the need to expand area under grains and oilseeds by putting back into production some of the land abandoned in the 1990s, as well as

to increase yields of forage crops, in order to feed the planned expanded livestock inventories and still have grain left to export.

Included under this category are the narrowly focused veterinary activities in the state program. They largely target pathogens and a single nematode pest that afflict meat-producing animals (foot-and-mouth disease for ruminants, avian influenza for poultry, and the botfly for bovines). They thus appear mainly intended to reduce risks and increase profitability in the meat production sector.

The rationale behind activities in this category is more generally a desire to increase profitability across the board by reducing costs of production. These include efforts to expand use of elite seed, and to subsidize credit and mineral fertilizer as well as, presumably, motor fuels (this last under the "price parity" rubric). Risk management tools such as crop insurance could conceivably make recultivation of marginal lands abandoned in the 1990s more attractive, potentially leading to a re-expansion of acreage.

The open question is whether any livestock sector created on the basis of heavy subsidization can be considered "competitive", and whether it will survive for long if and when those subsidies are withdrawn. Russia has never enjoyed an efficient beef sector, and has little experience in producing high-quality beef. The success of its new beef program will thus likely depend heavily on the level of protection from imports the government can assure -- and the official upper boundaries of that level have already been negotiated in the course of Russia's efforts to accede to the World Trade Organization (see GAIN report RS-5084). What remains to be seen is the degree to which Russia will apply "unofficial" trade barriers to beef imports, in the form of veterinary restrictions, as it has with other commodities.

Missing from the program is support for the most logical sector featuring "long investment cycles and heavy demands for investment in physical capital infrastructure": dairy. Russia's dairy sector is in dire need of modernization, in terms of genetics, animal nutrition, herd management, and product quality, yet in the aggregate remains slightly profitable in spite of its low productivity. Why the government program focuses on beef, a commodity unlikely ever to be competitive, at the expense of dairy, which conceivably could be, is unclear. Also missing are two other rapidly growing subsectors, poultry meat and pork, both the subject of heavy protection via the import tariff-rate quota regime and until now significant government support.

Also missing is serious attention to the demand side. Aside from passing mention of support for exports, the program does not encompass activities for stimulating demand (e.g., school lunch programs, nutritional awareness education, food stamps, biofuels promotion). Rather, the program focuses almost exclusively on expanding production of food and raw materials and delivering them to the market. Demand is assumed to be there, and trade barriers (continuation of the meat tariff-rate quotas) are the tool of choice to ensure that domestic product will capture a greater market share.

### **Social Programs**

Underlying the rationale for this direction of the program is deep concern about depopulation of rural areas. The gap between rural and urban standards of living, coupled with an enormous income disparity (rural dwellers on average have only 40 percent of the cash income of urban counterparts), has resulted in rural flight, especially among youth. Since abolition of the urban residence-permit system that artificially limited mobility of labor, rural areas have been forced to compete with cities for labor -- and have not been able to keep pace. Among the consequences of this are a growing shortage of qualified labor in production agriculture and land abandonment in marginal areas. In statements over the past two years Minister Gordeyev has also alluded to the risk to national security of land

abandonment, implying that nationals of other countries than Russia could occupy those lands if something is not done.

Compounding worries about depopulation is an awareness that the propensity of rural Russian dwellers to vote is twice that of their urban counterparts. Thus several activities in the agricultural program are designed not only to reduce rural flight to urban areas but to garner votes for the current party of power, as well.

Primary among these is expansion of rural development spending by nearly a factor of five between 2008 and 2012, to 34.5 billion rubles, with the bulk of that funding (24.6 billion rubles, nearly a billion dollars) going for improved housing. As one provincial Russian official explained, rural workers "don't mind the mud, but they do want to go home to a nice place."

The other major item in this category is the small rural enterprise credit expansion, budgeted at 8.8 billion rubles in 2012, and with a target of facilitating extension of 55 billion rubles of commercial credit to small rural borrowers in that year. Though it is debatable whether the National Priority Project in agriculture actually succeeded in creating over two thousand credit cooperatives (many reportedly exist only on paper), and whether expansion of Rosselkhozbank branches into every rayon of Russia can in such short order result in a viable branch network (given obvious shortages of trained, experience bank managers and loan officers to staff them), both the National Priority Project and this program have kick-started expansion of the heretofore tiny farm credit system. The challenges are daunting. The U.S. farm credit system took over 40 years (from 1913 to the mid-1950s) to develop; it is unreasonable to expect Russia to be able to roll out a similar system, ability to learn from our errors notwithstanding, in only six years (2006-2012). What's lacking from this program is an effort to train bank and credit cooperative staff on how to adjudicate loan applications, and thus, while targets for lending may be met, repayment may prove problematic.

Support of reindeer, free-range horse herding, sheep and goats is clearly intended to preserve traditional lifestyles among peoples of the north and the steppes, and to provide employment to residents of the mountainous regions of the North Caucasus, respectively.

Support of flax and rapeseed production targets the non-Black Earth zone of northwest Russia, with the fairly obvious intent of stemming depopulation of those rural areas.